February 17, 2009

Co-Chair John Fonfara

Co-Chair Vickie Nardello

Senator Kevin Witkos

Representative Sean Williams

Good Afternoon Members of the Energy Committee:

My name is Jennifer Tracey-Carlo and I live in Madison, CT. I will be speaking in favor of Bill 506.

I testify before you as owner of Tracey Energy Services, LLC, a 3rd generation heating oil company located in New Haven. Tracey Energy has been serving the greater New Haven area for over 75 years, and I have personally been involved full time in the business for the last 22 years. As owner, my responsibility is to ensure that my customers do not need to worry about their heating needs, whether that be overseeing automatic delivery so they do not run out of oil, overseeing service so when the customer does encounter a service problem, it is resolved in a quick & timely fashion, or reviewing customer's usage and equipment records to see if there is an opportunity to suggest newer equipment which could make their home more comfortable while reducing their oil consumption and therefore their oil cost. I AM NOT A FUTURES OPTIONS BROKER, A COMMODITY TRADING PROFESSIONAL OR A COMMODITY BROKER.

I am attending this hearing today to ask you to vote in favor of Bill 506, a bill which prohibits certain types of contracts for home heating oil and propane gas. Because of the way these contracts have to be entered into by the oil company, and the inherent risk involved, they are detrimental to both the residential consumer as well as the oil company itself.

Over the years, consumers have sought to enter into fixed priced heating oil contracts with their oil company during the spring and summer as a way to protect themselves from the probability of the increased cost of oil during the winter months. The thought process was that heating oil should be less expensive during the spring and summer, when not much was being sold, and the price would increase during the winter months when 80% of a customer's oil is consumed. This thought process, or the basic economics of supply and demand, worked relatively well when there was minimal futures speculation. When these fixed price contracts were first offered, the heating oil market was relatively stable, price disparity between spring/summer and fall/winter was reasonable, and the risk and costs the oil company assumed to offer a fixed price contract to the consumer was fairly nominal. This is illustrated in Exhibit A, attached, which shows the increase or decrease in the per gallon price of oil from May & June, when it is thought that the price should be lower, to the following January & February, when it

is assumed that the price would be higher due to demand. From 1994-1999, the difference between the cost of a gallon of heating oil in the spring to the winter varied not more than 11 cents per gallon, and even though three of those years the customer would have saved money if they fixed their price and three of those years they would not have, overall for the six years combined, the customer saved a minimal amount for entering into a fixed price contract each year (Exhibit B). From 2000-2006, the cost of a gallon of oil varied between 3 cents to 30 cents, and 6 of those 7 years the cost of a gallon of oil in the spring was less than in the winter, and therefore again from strictly a financial perspective if everything went perfectly for the oil company, the customer was better off fixing their price of oil for the upcoming winter Exhibit C).

The situation significantly changed from 2007-2009, as speculators became more interested in investing in the energy futures market. No longer was the price of oil reacting to a supply and demand theory. In 2007, if a customer fixed his/her oil price in the spring, they would have on average paid 31cents more than if they had paid the cost of oil on the day of delivery. In 2008, the customer would have saved approximately 74 cents per gallon by fixing his/her price, and this current year, using the average cost per gallon in January, 2009, the customer would have paid $2.17 more per gallon by fixing his/her price. You can see by spreadsheet 2 and 3 how the affect of speculators and therefore the volatility of the futures oil market have affected the "protection" the consumers thought they were gaining by entering into a fixed price contract. (All of the figures in the spreadsheet were found on the Energy Information Administration website). I have also attached an article from Oilheating Magazine on the CBS 60 Minutes program which aired on January 11, and examined the affect of speculation and the price of oil. It is easy to see how the consumer has ended up wanting something i.e. a fixed price program for heating oil for the upcoming season, which is not based on current circumstances and therefore is not in their best interest.

Now, let me explain why offering fixed price contracts in this volatile market is very dangerous for the oil company and therefore for the consumer.

When an oil company offers a fixed price to their customer, by CT state law they are required to have purchased 80% of their product either by purchasing liquid product or entering into an option contract before they even actually offer a price to their customer. That means the oil company must either buy a contract of 42,000 gallons for delivery in one particular month, or minimum 210,000 gallons to be delivered pro rata during the heating season. They now own either liquid product or a commitment for product as of a finite date & time, and the value of that product by the fact it is traded on the NYMEX futures market is constantly changing. By the time the oil company actually mails or makes an offering to their customer, the value of that oil could be worth significantly more or less than when they purchased it. The one guarantee is that is not worth the same amount as when it was purchased. If the value of the oil is less than what it was when the company purchased it, you can assume there is a good probability that the company will not be able to sell it at the price that they had planned. If the

selling price to the customer does not reflect the current market conditions, the oil company would not be able to sell the oil, or they would need to lower the selling price to the customer reflect the current market conditions and be competitive, even though this would mean they would make less per gallon to cover their expenses. The oil company would then hope that the next time they purchased a contract of 42,000 gallons, again for delivery in a certain month, that they would be able to make up the loss that they encountered in the first contract by increasing the amount needed to not only cover their normal expenses, but to cover the loss from the first contract. You can see how this cycle can become very dangerous for both the company and ultimately the consumer. Eventually, when the fixed pricing program is finished, the company has to hope it has made up for all of the losses it encountered while trying to sell the program in an environment where that value of the oil they purchased is constantly changing. If the company was not able to do this, they are already at risk of failing because the money it is receiving from the sale of oil cannot cover the expenses. If the company fails, the customer looses too, either by losing any actual monies paid to the company, or by forgoing the beneficial promised price of oil since no other company would be able to step in to help the customer since any other company only owns oil for their own customers.

Now, let's assume the selling of the fixed price program went relatively well, and the oil company overall in theory had made enough money above the cost of the product to cover the expenses associated with the delivery of the oil and the running of the business. There is still the risk associated with delivering that oil. As I had mentioned previously, the oil company is contracting for a certain number of gallons for delivery in a certain month. However, they are not delivering oil to their customer under the same conditions. The residential customer is only delivered oil that they can physically fit into their oil tank, and that is based on the weather, how cold or warm it is, and therefore how much oil the customer actually burned. In a volatile market, this unmatched purchase to sale can cause great deal of risk to the oil company. If the weather is unseasonably warm and the customers are not burning oil as they have historically done in an "average" winter, the oil company will be left with oil they have to pick up from their wholesaler and then deliver it at their regular daily rate to customers who were not on a fixed price contract. If the winter or even a month is unseasonably cold and the customers are burning more oil than they have historically in an "average" winter, the oil company will not have purchased enough oil for delivery to their customers and therefore could lose money when they have to purchase higher priced oil and deliver it to the same fixed priced customers. Besides the inherent difficulty this situation provides, this is where the volatility of the oil market really comes into play. If the oil market has only moved a few cents from May to the following February, the financial outcome of this risk is manageable. If the market has moved a great deal, in either direction, from the time the oil company purchased the oil for their fixed price customers, the financial risk could be unbearable, and could actually put the oil company out of business. Both these scenarios do not consider the actuality of the customer who breaks their contract with the oil company because the price is no longer in their favor. Now, the oil company owns that much more oil, again for delivery to their non-fixed price customers at a

loss. Unfortunately, oil companies, the Attorney General's Office, and the Department of Consumer Protection have heard thousands of complaints from customers trying to get out of their contracts this year just because of this reason. The combination of all of these things leaves the oil companies vulnerable to not being able to make the money needed to buy the fuel oil and pay its bills, therefore in essence putting itself out of business and leaving all of their customers at risk.

No matter how you look at it, fixing a customers' price for a period of time is a gamble, for both the customer as well as the oil company. There is no way an oil company can possibly anticipate all the variables that can happen during the season and therefore set an accurate price for the oil to cover those unknown risks. The only way for an oil company to protect their business and ultimately their customer is to purchase oil on a daily or short term basis, add the associated expenses onto the cost and establish a price to sell to the customer. This is how gasoline and diesel is sold, and just about all other items a consumer purchases. Grocery stores do not offer fixed price contracts on milk and bread. Even the public utility companies do not get involved with hedging and offering futures contracts to their customers to fix their utility cost.

Finally, participating in fixed price oil contracts has caused the customer to become more of a speculator in the last several years. The customer does not know when he/she enters into a fixed price contract if that price will ultimately be a savings or a cost to them at a future date. If companies like Goldman Sachs and Morgan Stanley can't predict the market correctly, what makes us thin that either the oil company or the consumer would be able to?

Please, on behalf of the oil consumers as well as the over 574 oil companies in Connecticut that employ more than 13,000 people, vote in favor of SB 506 and banning residential fixed price heating oil contracts.

Thank you.

Respectfully,

Jennifer Tracey-Carlo

Owner

Tracy Energy Services

Workbook Contents

New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)

Click worksheet name or tab at bottom for data

Worksheet Name	Description	# Of Series	Frequency
Data 1	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallor	1	Monthly

Release Date:	2/11/2009
Next Release Date:	2/19/2009
Excel File Name:	rhoc2m.xls
Available from Web Page:	http://tonto.eia.doe.gov/dnav/pet/hist/rhoc2m.htm
Source:	Energy Information Administration
For Help, Contact:	infoctr@eia.doe.gov
	(202) 586-8800

Back to Contents

Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)

Sourcekey	RHOC2	PER YEAR		
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price
May-1994	$ 0.4819	$ 0.0029	$ 386	
Jun-1994	$ 0.4960			
Jan-1995	$ 0.4834			
Feb-1995	$ 0.4790			$ 383
May-1995	$ 0.5049	$ (0.0127)	$ 404	
Jun-1995	$ 0.4840			
Jan-1996	$ 0.5342			
Feb-1996	$ 0.5176			$ 414
May-1996	$ 0.5280	$ (0.0528)	$ 422	
Jun-1996	$ 0.5207			
Jan-1997	$ 0.6797			
Feb-1997	$ 0.5808			$ 465
May-1997	$ 0.5587	$ 0.1052	$ 447	
Jun-1997	$ 0.5291			
Jan-1998	$ 0.4746			
Feb-1998	$ 0.4535			$ 363
May-1998	$ 0.4281	$ 0.1112	$ 342	
Jun-1998	$ 0.3971			
Jan-1999	$ 0.3409			
Feb-1999	$ 0.3169			$ 254
May-1999	$ 0.4278	$ (0.2962)	$ 342	
Jun-1999	$ 0.4450			
Jan-2000	$ 0.7040			
Feb-2000	$ 0.7240			$ 579
May-2000	$ 0.7237	$ (0.0326)	$ 579	
Jun-2000	$ 0.7785			
Jan-2001	$ 0.8050			
Feb-2001	$ 0.7563			$ 605
May-2001	$ 0.7757	$ 0.2278	$ 621	
Jun-2001	$ 0.7638			
Jan-2002	$ 0.5415			
Feb-2002	$ 0.5479			$ 438

EXHIBIT 1

Data from Energy Information Administration

Back to Contents	Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)					
Sourcekey	RHOC2	PER YEAR				
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price		
May-2002	$ 0.6742	$ (0.3069)	$ 539			
Jun-2002	$ 0.6577					
Jan-2003	$ 0.8804					
Feb-2003	$ 0.9811			$ 785		
May-2003	$ 0.7245	$ (0.1621)	$ 580			
Jun-2003	$ 0.7661					
Jan-2004	$ 0.9644					
Feb-2004	$ 0.8866			$ 709		
May-2004	$ 1.0141	$ (0.3023)	$ 811			
Jun-2004	$ 1.0066					
Jan-2005	$ 1.3163					
Feb-2005	$ 1.3164			$ 1,053		

EXHIBIT 1

Data from Energy Information Administration

Back to Contents	Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)					
Sourcekey	RHOC2	PER YEAR				
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price		
May-2005	$ 1.4205	$ (0.2951)	$ 1,136			
Jun-2005	$ 1.6330					
Jan-2006	$ 1.8169					
Feb-2006	$ 1.7156			$ 1,372		
May-2006	$ 2.0096	$ 0.3168	$ 1,608			
Jun-2006	$ 2.0118					
Jan-2007	$ 1.5705					
Feb-2007	$ 1.6928			$ 1,354		
May-2007	$ 1.8869	$ (0.7413)	$ 1,510			
Jun-2007	$ 1.9994					
Jan-2008	$ 2.5509					
Feb-2008	$ 2.6282			$ 2,103		
May-2008	$ 3.6299	$ 2.1654	$ 2,904			
Jun-2008	$ 3.8375					
Jan-2009	$ 1.4645			$ 1,172		
			$ 12,631	**$ 12,049**		
			$ 582			
			12,800	**Total Gallons**		
			$ 0.05	**ADDITIONAL COST per gallon than if hadn't locked in.**		

EXHIBIT 1

Data from Energy Information Administration

Back to Contents	Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (Cer			
Sourcekey	RHOC2	PER YEAR		
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price
May-1994	$ 0.4819	$ 0.0029	$ 386	
Jun-1994	$ 0.4960			
Jan-1995	$ 0.4834			
Feb-1995	$ 0.4790			$ 383
May-1995	$ 0.5049	$ (0.0127)	$ 404	
Jun-1995	$ 0.4840			
Jan-1996	$ 0.5342			
Feb-1996	$ 0.5176			$ 414
May-1996	$ 0.5280	$ (0.0528)	$ 422	
Jun-1996	$ 0.5207			
Jan-1997	$ 0.6797			
Feb-1997	$ 0.5808			$ 465
May-1997	$ 0.5587	$ 0.1052	$ 447	
Jun-1997	$ 0.5291			
Jan-1998	$ 0.4746			
Feb-1998	$ 0.4535			$ 363
May-1998	$ 0.4281	$ 0.1112	$ 342	
Jun-1998	$ 0.3971			
Jan-1999	$ 0.3409			
Feb-1999	$ 0.3169			$ 254
			$ 2,001	**$ 1,878**
			$ 123	
			12,800	**Total Gallons**
			$ 0.01	**ADDITIONAL COST per gallon than if hadn't locked in.**

EXHIBIT 2

Data from Energy Information Administration

Back to Contents	Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (C			
Sourcekey	RHOC2	PER YEAR		
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price
May-1999	$ 0.4278	$ (0.2962)	$ 342	
Jun-1999	$ 0.4450			
Jan-2000	$ 0.7040			
Feb-2000	$ 0.7240			$ 579
May-2000	$ 0.7237	$ (0.0326)	$ 579	
Jun-2000	$ 0.7785			
Jan-2001	$ 0.8050			
Feb-2001	$ 0.7563			$ 605
May-2001	$ 0.7757	$ 0.2278	$ 621	
Jun-2001	$ 0.7638			
Jan-2002	$ 0.5415			
Feb-2002	$ 0.5479			$ 438
May-2002	$ 0.6742	$ (0.3069)	$ 539	
Jun-2002	$ 0.6577			
Jan-2003	$ 0.8804			
Feb-2003	$ 0.9811			$ 785
May-2003	$ 0.7245	$ (0.1621)	$ 580	
Jun-2003	$ 0.7661			
Jan-2004	$ 0.9644			
Feb-2004	$ 0.8866			$ 709
May-2004	$ 1.0141	$ (0.3023)	$ 811	
Jun-2004	$ 1.0066			
Jan-2005	$ 1.3163			
Feb-2005	$ 1.3164			$ 1,053
May-2005	$ 1.4205	$ (0.2951)	$ 1,136	
Jun-2005	$ 1.6330			
Jan-2006	$ 1.8169			
Feb-2006	$ 1.7156			$ 1,372
			$ 4,608	**$ 5,542**
			$ (934)	
			12,800	**Total Gallons**
		EXHIBIT 3		

Data from Energy Information Administration

			$ (0.07)	SAVINGS per gallon than if hadn't locked in.

EXHIBIT 3

Data from Energy Information Administration

Back to Contents	Data 1: New York Harbor No. 2 Heating Oil Future Contract 2 (Ce			
Sourcekey	RHOC2	PER YEAR		
Date	New York Harbor No. 2 Heating Oil Future Contract 2 (Cents per Gallon)	Cost / (Savings) of Locking in Price in May/June vs Act Price Jan/Feb	Cost of 800 Gallons if Locked in at May Price	Cost of 800 Gallons on Daily Rate Program Based on Feb. Oil Price
May-2006	$ 2.0096	$ 0.3168	$ 1,608	
Jun-2006	$ 2.0118			
Jan-2007	$ 1.5705			
Feb-2007	$ 1.6928			$ 1,354
May-2007	$ 1.8869	$ (0.7413)	$ 1,510	
Jun-2007	$ 1.9994			
Jan-2008	$ 2.5509			
Feb-2008	$ 2.6282			$ 2,103
May-2008	$ 3.6299	$ 2.1654	$ 2,904	
Jun-2008	$ 3.8375			
Jan-2009	$ 1.4645			$ 1,172
			$ 6,021	**$ 4,628**
			$ 1,393	
			2,400	**Total Gallons**
			$ 0.58	**ADDITIONAL COST per gallon than if hadn't locked in.**

EXHIBIT 4

Data from Energy Information Administration